

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

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Chair
Commissioner
Commissioner
Commissioner
Commissioner

In the Matter of the Petition of Northern States
Power Company d/b/a Xcel Energy for
Approval of a Rate Rider to Recover Costs for
Emissions Reduction Proposal

ISSUE DATE: September 15, 2006

DOCKET NO. E-002/M-02-633

ORDER APPROVING REPORT AND
AUTHORIZING IMPLEMENTATION OF
2006 ENVIRONMENTAL IMPROVEMENT
RIDER

PROCEDURAL HISTORY

On July 26, 2002, Northern States Power Company d/b/a Xcel Energy (Xcel Energy or the Company) filed an emissions reduction proposal under Minn. Stat. § 216B.1692. Under the terms of the Company's emissions reduction proposal, it would renovate three metropolitan-area power plants – King, High Bridge, and Riverside, converting two of the three plants from coal to natural gas and installing advanced pollution control equipment at all three.

On December 11, 2003, the Company filed a Settlement Agreement on behalf of Xcel, the Minnesota Department of Commerce (the Department), the Residential Utilities Division of the Office of the Attorney General (RUD-OAG), the Pollution Control Agency (PCA), the Minnesota Chamber of Commerce, North Star Steel, Izaak Walton League of America (IWLA)-Midwest Office, ME3, Suburban Rate Authority, and the Sierra Club (the Settlement Agreement Parties). The Settlement Agreement Parties recommended that the Commission approve the Proposed Plan filed by Xcel Energy on July 26, 2002, subject to the terms of the Settlement Agreement.

On March 8, 2004, the Commission issued an Order approving Xcel's proposed plan, subject to the terms of a Settlement Agreement and additional conditions and clarifications.

On October 3, 2005, Xcel filed with the Commission and served upon the service list in this docket a petition to implement the first Environmental Improvement Rider to be applied to customer bills beginning January 1, 2006. Pursuant to the Environmental Improvement Rider tariff and the terms of the Commission's March 8, 2004 Order approving the Settlement Agreement, the Company submitted the projected revenue requirements and tracker account report that provide the basis for the rate adjustment. No party objected to the Company's petition and the

proposed rider went into effect January 1, 2006, subject to the true-up and audit provisions established in the Settlement Agreement.

On June 14, 2006, the Department filed comments recommending that the Commission approve Xcel's proposal to implement its 2006 Environmental Improvement Rider (EIR), along with a 40-year depreciable life for transmission lines and substations associated with the Plan.

On June 26, 2006, Xcel filed reply comments clarifying that its proposal calculated its proposed revenue requirement for the Plan using Commission-certified depreciation lives for transmission property, the average of which is approximately 40 years.

The Commission met on September 7, 2006 to consider this matter.

FINDINGS AND CONCLUSIONS

I. Background

Point 25 of the Settlement Agreement establishes a process for implementation of the rate rider to recover the costs of the Plan. Pursuant to Point 25, Xcel is to make a filing each year prior to October 1 calculating the rate rider consistent with the formula established in the Settlement Agreement. The annually proposed Environmental Improvement Rider is to take effect the following January 1 on a provisional basis, subject to true-up and adjustment after the review and audit of actual charges.

There are two safeguards against an unreasonable and unjustified Environmental Improvement Rider. If the rate rider appears unreasonable to any party, the party can petition the Commission prior to January 1 to suspend the rider. If as in this case no such objection is raised, the rider goes into effect automatically but subject to later review and audit. If upon review and audit the rider calculation or tracker balance is shown to be incorrect, the rider can be corrected and the tracker trued-up as part of a later filing.

In this case, no party objected to the rider that Xcel proposed in its October 3, 2005 filing. In addition, Xcel worked with the Commission's Office of Consumer Affairs (CAO) and other staff to draft a notice to customers regarding the new rate rider. The notice approved by CAO and other Commission staff was included in January bills.

II. Commission Analysis and Action

Based on the Department's comments and its own review, the Commission will approve Xcel's tracker balance report and the proposed revenue requirement for the Metropolitan Emissions Reduction Project (renovation of the King, High Bridge, and Riverside plants). As noted by the Company, its proposed revenue requirement incorporated Commission-certified depreciation lives for transmission property averaging 40 years.

The Commission clarifies that the approval granted in this Order covers implementation of the Company's 2006 Environmental Improvement Rider, but does not at this time extend to the Company's specific capital expenditures. These capital expenditures remain subject to the audit and true-up provisions of the Settlement and the Commission's March 3, 2004 Order.

ORDER

1. The Commission hereby approves the revenue requirement proposed by Xcel for the Metropolitan Emissions Reduction Project and the tracker balance report filed by the Company on October 3, 2005, both of which incorporate Commission-certified depreciation lives for transmission property averaging approximately 40 years.
2. The Commission also approves implementation of Xcel's Environmental Improvement Rider, effective January 1, 2006.
3. The Commission clarifies that consistent with the Settlement and March 3, 2004 Order in this matter the actual costs of the project are subject to Commission review, audit, and any resulting true-up at a later date.
4. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Burl W. Haar
Executive Secretary

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